

REBUTTAL TESTIMONY
OF
ERIC P. SCHLAF
ENERGY DIVISION
ILLINOIS COMMERCE COMMISSION

North Shore Gas Company

Docket No. 01-0469

Choices For You Program

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INTRODUCTION OF WITNESS

Q. Please state your name and business address.

A. My name is Eric P. Schlaf. My business address is 527 East Capitol Avenue, Springfield, Illinois, 62701.

Q. Are you the same Eric P. Schlaf who provided testimony earlier in this proceeding?

A. Yes.

Q. What is the purpose of your rebuttal testimony?

A. I am responding to the rebuttal testimony of North Shore Gas Company ("North Shore" or the "Company") witness Ms. Debra Egelhoff. I also respond to certain issues discussed in the direct testimony of New Power Company witness Ms. Becky Merola.

SINGLE BILLING

Q. Ms. Egelhoff states that the Company is still opposed to the supplier single billing proposals that have been advocated in this proceeding (Respondent's Ex. C, p. 22; pp. 31-32). Do you agree with Ms. Egelhoff's position?

A. No. I continue to support supplier-offered single billing, both under account agency and through tariff, for the reasons set forth in my direct testimony.

27 **Q. The Company has nonetheless provided a proposed tariff for review, to be**
28 **used in the event the Illinois Commerce Commission ("Commission")**
29 **orders the Company to allow suppliers to offer single bills. Please**
30 **comment on proposed Rider SBO.**

31 **A.** I'd like to say that that I believe the Company has significantly advanced the
32 discussion of single billing matters in this proceeding by offering Rider SBO.
33 Staff appreciates the opportunity to review a single billing tariff during the
34 testimony phase of this proceeding.

35
36 I would support most of the tariff, as written, with a few exceptions, discussed
37 below. I also note that some matters typically addressed in single billing tariffs
38 (or in documents, such as "Implementation Plans," or "Supplier Handbooks" that
39 explain how the tariffs are implemented) are not fully addressed in the proposal.

40
41 **Q. The Company's proposed Rider SBO would offer only one payment option,**
42 **the "Guaranteed" payment option. Please comment.**

43 **A.** I would prefer that the Company permit suppliers a choice of two options. In
44 contrast to the Guaranteed payment option, the second option would require
45 suppliers to remit only the money they collect from their customers to the
46 Company. Under this alternative, suppliers would not obligated to pay the
47 distribution bills of their customers unless payment is received from those
48 customers. To my knowledge, this second option is the only payment option that
49 the electric suppliers who offer single billing through tariff have chosen.

50

51 **Q. What is the Company's proposal concerning the Company's logo and what**
52 **is your position on the Company's proposal?**

53 **A.** Provision (3) of Section D of proposed Rider SBO states that suppliers offering
54 single billing under Rider SBO must identify the Company by use of the
55 Company's "trade name or logo" on each single bill issued to its customers. I
56 recommend that the provision requiring use of the Company's logo be deleted
57 from the Company's proposed tariff.

58

59 The issue of whether the delivery company could require that its logo be placed
60 on the suppliers' single bills has been debated in the Illinois electric industry.
61 Suppliers generally believe that company logos placed on suppliers' bills
62 unreasonably promote the company, at the possible expense of suppliers'
63 interests. The Commission has determined that company logos should not
64 appear on suppliers' bills in the electric industry (see Attachment A, Interim
65 Order, Docket No. 00-0494, October 18, 2000). I see no reason why the
66 Company logo should appear on supplier bills in the natural gas industry.

67

68 With respect to use of the Company's "trade name," I am not certain what is
69 meant by that term. My sense is that that the term trade name simply refers to
70 "North Shore" or perhaps "North Shore Gas Company," and that the Company
71 wishes to ensure that its name appears on its portion of the supplier's single bill.
72 I have no objection to the use of the Company's trade name to delineate the

73 Company's charges on the supplier's single bill, assuming that I have correctly
74 characterized the purpose of its use.
75

76 **Q. The first sentence of Section F of proposed Rider SBO prohibits entities**
77 **that are not supplying gas to participating customers from providing billing**
78 **for the Company's charges. What is your position on this proposal?**

79 **A.** This proposal would prohibit entities that offer billing services, but not gas supply
80 services, from billing for the Company's charges. As the Company's residential
81 gas transportation is still in the pilot stage, I have no objection to this policy for
82 the duration of the program. In the longer term, however, customers may wish to
83 appoint entities that are not gas suppliers to handle their billing and other matters
84 affecting their gas service; in other words, entities who function as account
85 agents. This practice is common in the electric industry, and some entities that
86 might decide in the future to become gas suppliers have begun their marketing
87 efforts by offering billing services only. Thus, I recommend against placing this
88 policy in effect on a permanent basis.

89
90 **Q. Section F of proposed Rider SBO would require suppliers to offer**
91 **customers the opportunity to take single billing service from the Company,**
92 **as well as from the supplier. What is your position on this proposal?**

93 **A.** The proposal might have limited informational value. Beyond providing an
94 indication of the proportion of customers who prefer supplier billing, utility billing
95 or dual billing, however, I can see only the proposal's detriments. In particular, I
96 find the proposal to be unnecessary. I do not believe that customers need to be

97 offered an explicit choice concerning the entity that should provide their bills.

98 Customers will express their billing preferences through their choice of suppliers.

99 Customers who prefer to have the utility issue their bills will likely choose a

100 supplier who relies on the Company to provide such services. Customers who

101 wish to have a supplier issue their bills will choose a supplier who provides single

102 billing.

103
104 I also find that the proposal might restrict supplier marketing efforts by requiring

105 that suppliers mention that another company (the utility) also offers the same

106 service. Finally, I note that Ms. Egelhoff mentions in her testimony that the

107 Company is indifferent, from a financial perspective, as to whether customers

108 remain on sales service or secure supply from a gas supplier (Respondent's Ex.

109 C, p. 36). It seems to me that the Company should be equally indifferent as to

110 who supplies bills for customers. Thus, I recommend that Section F be amended

111 as follows: Delete the portion of the first paragraph Section F that begins with

112 "...and (b) who affirmatively elected to..." and ends with "...for the purposes of

113 auditing compliance." Additionally, the first portion of this sentence should be

114 appropriately modified to accommodate this change.

115
116 The last sentence of Section F should be modified by deleting the word "such"

117 and by changing the word "some" to "its." The purpose of this change would be

118 to make clear that suppliers could provide single billing to some, or all, of their

119 customers.

120
121
122 **Q. What matters are not addressed by proposed Rider SBO?**

123 **A.** In my direct testimony, I listed a number of questions that I believe should be
124 addressed by a single billing tariff (ICC Staff Exhibit 3.0, pp.17-18). Most of
125 these matters were addressed in the proposed tariff. However, items (6) and (7)
126 from my list do not appear to be addressed by the tariff. These questions are
127 reproduced below:

128 6. Can North Shore Gas require suppliers to bill and collect payments
129 for any unpaid bills that are associated with North Shore Gas' sales
130 service?

131 7. Is revenue collected from suppliers applied to a customer's
132 distribution charges only, or can North Shore Gas apply single billing
133 revenue to any outstanding bill that a customer may have?
134

135
136 **Q. How would you answer Questions (6) and (7)?**

137 **A.** With respect to Question (6), my answer simply is "No." The Company proposes
138 to permit only one payment option, the "Guaranteed" payment option, wherein
139 the supplier is legally responsible for payment of its customers' charges. If the
140 Company were permitted to list a customer's sales unpaid charges on the single
141 bill, a supplier could held responsible for the payment of that bill.

142
143 With respect to Question (7), my response is that revenue collected from a single
144 billing supplier should be applied to the customer's distribution charges only.

145 This situation might arise when a customer switches to a new gas supplier while
146 still owing money to the Company. After the supplier issues a single bill
147 containing its charges as well as the Company's charges, the money remitted by

the supplier should be designated for payment of the distribution charges incurred by the customer while the supplier served the customer. If the bill is applied to other charges, then the supplier might not receive credit for paying the customer's bill in a timely manner.

Q. Are there other issues that are not addressed in proposed Rider SBO?

A. Yes. As Ms. Merola noted in her testimony, one item that should be addressed in the tariff is the size of the credit that customers should receive as a result of suppliers performing the single billing function (Direct Testimony of Becky Merola on Behalf of the New Power Company, p.11). Ms. Merola notes that the amount of the credit should be based on an embedded cost methodology. I recommend that the Company, in its surrebuttal testimony, provide the results of its calculation of the single billing credit using an embedded cost methodology.

RETURN TO SALES SERVICE

Q. Ms. Merola objects to the requirement that customers who return to sales service be required to remain on that service for 12 months. She suggests that a competitive bidding for default service could be established as an alternative (Ibid., pp. 15-18). Please comment.

A. It has become standard in the electric industry in Illinois to require non-residential customers who return to bundled service to remain on that service for 12 months. Also, some of the electric utilities have proposed that smaller-use customers (i.e., residential customers and customers who consume less than 15,000 kilowatt-hours annually) who return to utility service be required to remain on sales

173 service for 24 months. The usual justification for this practice is that the
174 requirement is intended to prevent customers from relying on utility service when
175 market prices are high (i.e., during the heating season), and returning to supplier
176 service when prices are lower. I have always had doubts that a 12-month
177 requirement is necessary, and I would not oppose removal of this provision from
178 North Shore's tariffs.

179
180 Ms. Merola also comments on the proposed two-month "grace period," which is
181 the period allowed a customer who returns to sales service to choose a new gas
182 supplier. If the customer does not opt for a new supplier, the customer would be
183 required to remain on sales service for one year. Ms. Merola suggests that, as
184 an alternative policy, the Company could establish a competitive bidding program
185 for such customers (as well as for new customers). As Staff Witness Charlie C.
186 S. Iannello explains, Staff opposes this proposal. Ms. Merola also suggests that
187 the grace period should extend to three months, rather than two months. While a
188 two-month grace period is acceptable, Staff would have no objection to a three-
189 month grace period.

190
191 Ms. Merola also makes the point that a customer who returns to sales service
192 should be notified of its supply options. I agree that it is important for customers
193 to understand their options during the grace period. Thus, I recommend that the
194 Company send letters to grace period customers describing the various options
195 available to them. The letter should also explain the consequences of not

196 choosing a supplier during this period. It would also be helpful to suppliers if they
197 were also notified of a customer's eligibility, and I would not oppose a
198 requirement that the Company provide a list to suppliers of newly eligible
199 customers. However, I think it is much more important that customers
200 understand their options than for suppliers to be made aware of each customer
201 that becomes eligible for only a two or three month period.

202
203 **CUSTOMER ENROLLMENT PROCEDURES**

204
205 **Q. Ms. Egelhoff states that the Company's proposed tariffs do not prohibit**
206 **suppliers from signing up customers over the telephone or over the**
207 **Internet. Thus, the proposed tariffs permit these enrollment methods**
208 **(Respondent's Ex. C, p. 21). Please comment.**

209 **A.** I agree that the Company's proposed tariffs do not explicitly prohibit suppliers
210 from enrolling customers over the telephone or over the Internet. However, for
211 purposes of clarity, I would prefer that the tariffs make clear that suppliers can
212 use these enrollment methods. The tariffs should also state that suppliers using
213 any of the permitted enrollment methods are still subject to Letter of Agency
214 requirements, as I discussed in my direct testimony.

215
216 **Q. Ms. Egelhoff discusses the Company's plans for sending notification**
217 **letters to customers, and states that the Company would not oppose a**
218 **Commission directive to implement a notification process (ibid.) Please**
219 **comment.**

220 **A.** Staff believes that notification letters have played a useful role in reducing the
221 possibility that customers are switched without their knowledge and consent.
222 Thus, I recommend that the Company implement the notification process that is
223 described in Ms. Egelhoff's rebuttal testimony.

224
225
226 **STANDARDS OF CONDUCT**
227

228 **Q.** Ms. Egelhoff discusses the Company's position with respect to the Staff
229 and Citizens Utility Board recommendation that suppliers be subject to
230 Standards of Conduct provisions (Ibid., p. 32-33). Please comment.

231 **A.** I agree that enforcement of the Standards of Conduct, especially in situations
232 that involve the Company's affiliate, might occasionally present problems in the
233 Company's administration and enforcement of the Standards. Nevertheless,
234 Staff believes that, for the protection of customers, it is essential that participating
235 suppliers be subject to certain minimal standards governing their activities.
236 Moreover, in my opinion, the Standards of Conduct are written clearly enough
237 that it would be evident to most observers whether a supplier is or is not in
238 compliance with the Standards.

239
240 Should a supplier be in clear violation of the Standards, the main question is how
241 the Standards should be enforced. I do not see enforcement of the Standards of
242 Conduct, as qualitatively different than enforcement of other Company tariffs.
243 Utilities are experienced in judging whether suppliers and customers comply with
244 their tariffs, although though the utilities' tariffs are replete with statements that

245 describe the responsibilities of customers and suppliers under the tariffs. For
246 example, proposed Rider SBO contains a section entitled "SVT Supplier
247 Obligations" that spells out certain obligations that suppliers taking service under
248 the tariff must fulfill. It also contains a section entitled "Terms and Conditions of
249 Service" that further details the responsibilities of suppliers under the tariff.

250
251 The section of the tariff entitled "Contract" describes the potential consequences
252 of a supplier's failure to comply with the tariff. While the tariff does not state that
253 the Company would actively monitor supplier behavior, any information that
254 comes to the Company's attention with respect to potential violations of the tariff
255 would likely prompt the Company to take the actions described in subsections (i)
256 and (ii) of the tariff's Section G.

257
258 This is just one example that illustrates how utilities can enforce their tariffs. I
259 would expect the Company to enforce the Standards of Conduct in a similar
260 manner.

261
262 **CUSTOMER EDUCATION**

263
264 **Q. Ms. Egelhoff states that the Company is concerned about the recovery of**
265 **any additional costs the Company might incur if it expands its current**
266 **educational plans (Ibid., p. 35). Please comment.**

267 **A.** Ms. Egelhoff states that the Company would be open to incorporating in its own
268 customer education program the suggestions made by participants to the recent
269 Nicor Gas workshops linked to that company's Customer Select Program

(Docket Nos. 01-0620/0621 (Consol.), and, if necessary, holding additional workshops. The Company's willingness to enhance its educational program is appreciated.

As of this date, Nicor Gas has held the three required workshops. I recommend that the Company describe any enhancements it might make to its current educational program based on the results of the Nicor Gas workshops.

If the Company believes that any enhancements will cause it to incur additional expenditures, then I suggest that the Company provide evidence of such expenditures in its next filing. I would agree that recovery of any expenditures above those discussed in the Company's next filing (i.e., expenditures that are due to the results of any workshops that the Company holds at the conclusion of this proceeding) is uncertain. To my knowledge, the Commission has not permitted Nicor Gas to recover any expenditures it might incur in the future resulting from its customer education workshops.

Q. Does this conclude your rebuttal testimony?

A. Yes.